SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

13 November 2014

Feature: Interview with Emile Du Toit, outgoing SAVCA chairman

We speak to Emile Du Toit, the outgoing SAVCA chairman, regarding his six-year tenure on the SAVCA board. Du Toit has sat on both sides of the table, as an LP at the DBSA, where he was a Divisional Executive for Private Equity and Investment Banking, and as a GP in his role as Head of Infrastructure Investments at Harith General Partners.

1. During your time with SAVCA, what significant changes have you seen in the industry?

The major change both in South Africa and globally has been the increased regulation on the industry following the global financial crisis. This regulatory burden has driven up the cost of compliance and makes it much less efficient to be a small fund manager and has given the larger players an advantage. This has meant that SAVCA has needed to take on a much stronger role than before in engaging with regulators, policymakers and legislators, as representative for its entire membership base.

During my tenure, it has been pleasing to see the changes to Regulation 28 by the FSB, which allows pension funds to increase their allocation to private equity from 2% to 10%.Take up by pension funds has been limited to date. As an industry body SAVCA still has substantial work to do in increasing the awareness amongst asset consultants and pension fund trustees of the benefits of private equity.

Much of our historical focus has been on showing that private equity returns compare favourably with listed markets. However, there is also merit in speaking about the massive benefits of portfolio diversification which private equity provides and also dismissing the unwarranted fears around illiquidity.

The mere fact that private equity returns as an asset class in general, are heavily uncorrelated with the returns from most other asset classes, already provides substantial benefits to pension funds in constructing their portfolios. Regarding the liquidity properties of private equity, property has similar illiquidity and there are ways to structure investment into funds with different tenures to overcome this.

Private equity has the further benefit of allowing investment in businesses and assets that aren’t ordinarily accessible through listed markets or otherwise (such as Infrastructure or large family-owned businesses). Our South African investment universe is relatively small and it’s important that SAVCA continues its efforts to educate institutional investors on how to broaden this universe through private equity. I strongly believe that SAVCA’s continued marketing and PR efforts can remove some of the historic myths and misplaced fears associated with this asset class.

2. What else would broaden participation in private equity?

At present investment into private equity funds is the domain of the large pension funds. It would be also good to see a greater presence of intermediaries and fund of fund vehicles to facilitate investment by smaller pension funds. Minimum investment allocations into private equity funds prevent these smaller funds from investing directly into Private equity. They need to be able to diversity their risk. There is still not enough traction in this space.

3. Who is Harith General Partners?

Harith is a pan-African fund manager which invests in infrastructure projects on the African continent. We started out with one pure equity fund but we now have four funds under management (two equity funds, one debt fund and one guarantee fund) and are also busy fundraising for two further sub-regional Infrastructure funds. We've grown our funds under management to almost $2.5 billion currently. Today, we are a team of almost 60 people across our offices, which include the head office in Sandton, our office in London and our regional offices in Abidjan, Accra and Nairobi. We see ourselves as a platform for aggregating institutional capital and managing multiple African-focused funds – part of this involves building the capacity, regional presence and the people to do so.